Part E – Information on risks and relative hedging policies

INTRODUCTION

The table below shows the mapping of risk disclosures regarding the financial statements and Pillar 3, which is in compliance of the recommendations in "Enhancing the Risk Disclosures of Banks" drawn up by the Enhanced Disclosure Task Force.

	FINANCIAL STATEMENTS		PILLAR 3
	Section/Chapter	Paragraph	Section
RISKS OF THE BANKING GROUP	PART E - SECTION 1		
- Credit risk	Chapter 1.1		Sections 5-6-7-8
- Securitisations		*Paragraph C*	*Section 10*
- Counterparty risk	Chapter 1.1 - Chapter 1.2		Section 9
- Market risk	Chapter 1.2		
- Regulatory trading book		*Paragraph 1.2.1*	*Section 11*
- Banking book		*Paragraph 1.2.2*	*Sections 13-14*
- Sovereign risk	Chapter 1.3		
- Liquidity risk	Chapter 1.3		
- Operational risk	Chapter 1.4		Section 12
- Legal risk	Chapter 1.4		
RISKS OF INSURANCE COMPANIES	PART E - SECTION 2		
- Insurance risks	Chapter 2.1		
- Financial risks	Chapter 2.2		
RISKS OF OTHER COMPANIES	PART E - SECTION 3		

Basic principles

The Intesa Sanpaolo Group gives great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk.
The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of the Group's portfolios.
Risk-acceptance strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Management Board and Supervisory Board. The RAF, introduced in 2011 to ensure that risk-acceptance activities remain in line with shareholders' expectations, is established by taking account of the Intesa Sanpaolo Group's risk position and the economic situation.
The general principles that govern the Group's risk-acceptance strategy may be summarised as follows:

– Intesa Sanpaolo is a banking group focused on a commercial business model in which domestic retail activity remains the Group's structural strength;
– the Group does not aim to eliminate risks, but rather attempts to understand and manage them so as to ensure an adequate return for the risks taken, while guaranteeing the Company's solidity and business continuity in the long term;
– Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, a sound liquidity position and a strong reputation are the key factors to protecting its current and prospective profitability;
– Intesa Sanpaolo aims at a capitalisation level in line with its main European peers (on average with ratings higher than those of the Italian government);
– Intesa Sanpaolo intends to maintain strong management of the main specific risks (not necessarily associated with macroeconomic shocks) to which the Group may be exposed;
– the Group attaches great importance to compliance and reputational risks: for compliance risk, the Group aims for formal and substantive compliance with rules in order to avoid penalties and maintain a solid relationship of trust with all of its stakeholders and customers. For reputational risk, the Intesa Sanpaolo Group strives to manage its image in the eyes of all stakeholders actively and aims to prevent and contain any negative effects on said image.

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are managed, with the establishment of general principles of risk appetite and the resulting structuring of the management of:

– the overall risk profile; and
– the Group's main specific risks.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even under the conditions of severe stress. In addition, it aims to ensure the desired reputational and compliance risk profiles.
In detail, management of overall risk is aimed at maintaining adequate levels of:

– capitalisation, even under conditions of severe macroeconomic stress, with respect to both Pillar 1 and Pillar 2. In further detail, capital adequacy is assessed by monitoring:
    o Common Equity and the Total Ratio, for Pillar 1; and

  - o the Leverage Ratio and Risk-Bearing Capacity, for Pillar 2;
- – liquidity, so as to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situations; the Liquidity Coverage Ratio, the Net Stable Funding Ratio and the Funding/Lending Gap;
- – earnings stability, so as to ensure profitability even in stress scenarios through an adequate mix of business;
- – management of operational, compliance and reputational risk so as to minimise the risk of negative events that jeopardise the Group's economic stability and image.

Management of the main specific risks is aimed at determining the risk appetite that the Group intends to assume with regard to exposures that may represent especially significant concentrations. Such management is implemented by establishing ad hoc limits, management processes and mitigation measures to be taken in order to limit the impact of especially severe scenarios on the Group. Such risks are assessed on the basis of stress scenarios, are subject to periodic monitoring with the framework of Risk Management systems and constitute early warning indicators, especially as regards capital adequacy.
In detail, the main specific risks monitored are:

- – especially significant risk concentrations (e.g., concentration on individual counterparties, sovereign risk or commercial real estate);
- – the individual risks that make up the Group's overall risk profile and whose the operating limits, as envisaged in specific policies, complete the Risk Appetite Framework.

In light of the Italian macroeconomic context and its extreme uncertainty, credit risk was identified as a priority area for analysis, also considering its significant amount for the Group. Moreover, as Intesa Sanpaolo is part of the "leading group" of the top 30 banks in the Eurozone, whose prudential supervision shall be managed by a dedicated Division of the ECB, it was decided to develop, over 2015, a Credit Risk Appetite framework in order to ensure alignment with the emerging European standards.

In compliance with the recent instructions from the Bank of Italy, the Group Risk Appetite is organised (both in terms of the total risk and in terms of the main specific risks) on the subsidiaries that contribute significantly to risks and/or specific local characteristics: Banca IMI, Banca Fideuram, Intesa Sanpaolo Vita, Fideuram Vita and the international subsidiaries. Overall risk management is implemented by monitoring key aspects (capital adequacy, liquidity and reputation) according to an approach similar to that followed at the Group level.
The Risk Appetite Framework informs the Budget and Business Plan and is proposed by the Chief Risk Officer, after its compatibility is assessed together with the Chief Financial Officer and the Heads of the various Business Units. The risk-acceptance strategy and policy thus fall within the context of the Plan and Budget process. In accordance with regulatory constraints and in a manner consistent with the risk profile assumed by the Group, the Chief Financial Officer area lays down the strategic profitability, capital adequacy and liquidity objectives that the Group intends to pursue. These objectives then form the basis for identifying the assets and financial resources to be allocated to the individual business units, including the insurance segment, through a process that involves an assessment of their attractiveness, financial independence, growth potential and ability to create value.
The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in loan management processes and controlling operational risk, the use of capital-at-risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Supervisory Board and the Management Board along the Group's entire decision-making chain, down to the single operational units and to the single desks.
The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas with specific risk tolerance sub-thresholds, in a comprehensive framework of governance and control limits and procedures.
The assessment of the risk profile and periodic revision are conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules. Since 2013, the Group has also been completing a Recovery Plan process according to indications from the Supervisory Authority.

A culture of risk-awareness

The utmost attention is devoted to spreading and sharing a culture of risk-awareness through both periodic updates to the documents prepared (Tableau de Bord, ICAAP and Risk Appetite Framework) and initiatives undertaken with the aim of dealing with specific issues raised from time to time.
In addition, the Group guarantees the spread of the culture of risk-awareness through extensive training efforts aimed at ensuring the proper application of the internal risk management models.
The Risk Academy initiative, mainly addressed to the international subsidiaries, is a strategic project that pursues the goal of improving management of Risk Governance at Banking Group level.
The measures taken in pursuit of this goal are established with a coordinated approach to risk management and are compliance with supervisory regulations, as well as ongoing support from the Parent Company for the local growth of risk assessment and monitoring systems within the international subsidiaries.
The risk management approach aims to achieve increasingly integrated and consistent risk management, considering both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness through a transparent, thorough representation of the risk level of portfolios. The efforts made in recent years with the Basel 2 and 3 Project in order to obtain authorisation from the Supervisory Authorities for the use of internal ratings to calculate credit risk requirements and in order to secure validation of internal models for operational and market risks should be seen in this context.

Risk governance organisation

Risk-acceptance policies are defined by the Parent Company's Supervisory Board and Management Board. The Supervisory Board carries out its activity through specific internal Committees, among which mention should be made of the Internal Control Committee and the Risk Committee. The Management Board relies on the action of managerial committees, among which mention should be made of the Group Risk Governance Committee. Both corporate bodies receive support from the Chief Risk Officer, who is a member of the Management Board and reports directly to the Chief Executive Officer.
The **Chief Risk Officer** is responsible for proposing the Risk Appetite Framework, setting the Group's risk management and compliance guidelines and policies in accordance with Company strategies and objectives and coordinating and verifying the

implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies.

The **Group Risk Governance Committee**, chaired by the Managing Director and CEO, is a body with decision-making, consultative and reporting powers. It was established with the aim of ensuring the monitoring and management of risks and the safeguarding of corporate value at Group level, in implementation of the strategic guidelines and management policies defined by the corporate bodies.

The Committee is also responsible for Basel 3 project governance and supervising the projects and measures necessary to guarantee compliance.

The **Group Financial Risks Committee** is a technical body with a decision-making and reporting role that focuses on proprietary financial risk of banking and trading books, as well as on Active Value Management. This Committee, which meets in two separate periodic sessions, one of which is chaired by the Chief Risk Officer and the other by the Chief Financial Officer, is responsible for assessing the following, prior to approval by the corporate bodies:

- the methodological and measurement guidelines for financial risks;
- establishment of operational limits and assessment of the risk profile of the Group and its main operational units;
- strategic decisions relating to management of the banking book, to be submitted to the competent bodies;
- guidelines concerning liquidity, interest rate and foreign exchange risk.

In addition, it periodically assesses the Group's overall financial risk profile and acts appropriately to mitigate it.

The **Group Control Coordination and Operational Risk Committee** is a technical body that operates with the aim of stepping up coordination and interdepartmental cooperation mechanisms:

- as part of the Group internal control system, facilitating the integration of the risk management process;
- in relation to operational risks, including ICT risk, facilitating its effective management.

The Committee operates within the scope of the guidelines set by the corporate bodies, based on the operational and functional powers delegated by the Management Board of the Parent Company. The Functions of the Group Control **Coordination and Operational Risk Committee** are organised into specific, separate sessions:

- Integrated Internal Control System Session, for reporting and consulting purposes;
- Operational Risk session, with decision-making, reporting and consulting purposes (in this context, the Committee's duties include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies).

The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. For the main Group subsidiaries, these functions are performed, based on an outsourcing contract, by the Parent Company's risk control functions, which periodically report to the Board of Directors and the Audit Committee of the subsidiary.

The Risk Management Department performs the following functions:

- it is responsible for risk exposure methods and controls implemented in each business unit, reporting on the overall situation to the corporate governance bodies;
- it proposes the annual update of the RAF to the Chief Risk Officer;
- it proposes to the top management, along with the other competent corporate functions, the guidelines for managing the overall risk for the Group and the definition of the related system of operational limits, in line with the allocated capital;
- it promotes the use of risk measurement tools during the credit granting and managing process and the concentration process;
- it oversees the methodological and organisational framework for operational risks;
- it adopts capital-at-risk measurements for management reporting and assessment of the Group's Economic Capital adequacy;
- it ensures that statutory reports on internal models are sent to the Supervisory Authorities;
- it is responsible for operational implementation of the management strategies and guidelines for risk along the Bank's entire decision-making chain, down to individual operational units and desks;
- as part of the Tableau de Bord and on a quarterly basis, it reports to the corporate bodies on the situation of the Group's overall risk profile; it compares that situation with the Risk Appetite Framework, highlighting any situations that require action by the boards;
- it draws up the annual update of the criteria for identifying Significant Transactions and provides a prior opinion on such transactions.

Scope of risks

The risks identified, covered and incorporated within the economic capital, considering the benefits of diversification, are as follows:

- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risk, also including legal risk, ICT risk and model risk;
- strategic risk;
- risk on equity investments not subject to line by line consolidation;
- risk on real estate assets owned for whichever purpose;
- insurance risk.

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including in the form of stress tests.

Particular attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

The Group also intends to maintain adequate levels of protection against reputational risk to minimise the risk of negative events

that might jeopardise its image. To that end, it has embarked upon an ex-ante risk management process to identify the major reputational and compliance risks for the Group, define prevention and mitigation tools and measures in advance and implement specific, dedicated reporting flows.
Assessments of each single type of risk for the Group are integrated in a summary amount – the economic capital – defined as the maximum "unexpected" loss the Group might incur over a year. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated based on the current situation and also as a forecast, based on the budget assumptions and projected economic scenario under normal and stress conditions.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, detailed in this Part E of the Notes to the consolidated financial statements.
The information provided in this part of the document is based on internal management data and does not necessarily coincide with that contained in Parts B and C. Tables and information for which the indication of "book values" is specifically required represent an exception.

Other risks

In addition to credit, market, operational and insurance risks, discussed in detail in the following paragraphs, the Group has also identified and monitors the following other risks.

Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.
The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Management Board and the Supervisory Board, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions ensures that strategic risk is mitigated.
An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:
- a component associated with the possible impact of misguided Company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which strategic decisions are reached and by their centralisation with top management, where all significant decisions are always supported by specific activities aimed at identifying and measuring the risks implicit in the initiative;
- the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions and changes in the operating context. This component is handled not only by using systems for regulating Company management, but also via specific internal capital, determined according to the Variable Margin Volatility (VMV) approach, which expresses the risk arising from the business mix of the Group and its Business Units.

Strategic risk is assessed also as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses.

Reputational risk

The Intesa Sanpaolo Group attaches great importance to reputational risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and Supervisory Authorities.
The Group actively manages its image in the eyes of all stakeholders and aims to prevent and contain any negative effects on its image, including through robust, sustainable growth capable of creating value for all stakeholders, while also minimising possible adverse events through rigorous, stringent governance, control and guidance of the activity performed at the various service and function levels.

Management/mitigation of reputational risk is also achieved by limiting exposure to primary risks.

The reputational risk governance model of Intesa Sanpaolo envisages that management and mitigation of reputational risks is pursued:
- systematically and independently by the corporate structures with specific tasks aimed at preserving corporate reputation, through a structured system of organisational monitoring measures;
- across the various corporate functions, through the Reputational Risk Management process governed by specific Guidelines.

The 'systematic monitoring of reputational risk envisages:
- specific organisational structures which, each for its purview, monitor the Bank's reputation and manage the relationships with the various stakeholders;
- an integrated monitoring system for primary risks, to limit exposure to them;
- compliance with standards of ethics and conduct;
- establishing and managing customers' risk appetite, through the identification of their various risk tolerance profiles according to subjective and objective traits of each customer.

The "cross-function" monitoring of reputation risk is entrusted to the Reputational Risk Management (RRM) process. It is conducted yearly and aimed at integrating and consolidating the main findings provided by the organisational structures, which are more directly involved in monitoring the company's reputation. The objective of that process is to identify and mitigate the most significant reputational risk scenarios to which the Intesa Sanpaolo Group is exposed through:

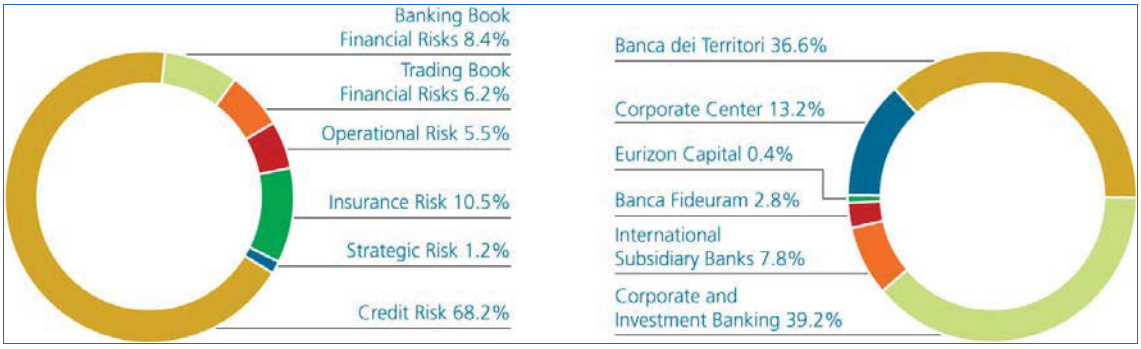
- the identification of the main risk scenarios to which the Group is exposed, by the Risk Management Department, along with the Compliance Department as regards the compliance risks and with the cooperation of the other relevant corporate functions;
- the assessment of said scenarios by the Top Management;
- the definition and monitoring of adequate communication strategies and specific mitigation measures.

The Reputational Risk Management process of Intesa Sanpaolo is a cross-function process managed by the Risk Management Department, along with the Compliance Department as regards to compliance risks, and in cooperation with the other relevant functions, which involves the organisational structures of the Parent Company, Intesa Sanpaolo Group Services and the main Group companies.

The Group adopts a Code of Ethics that sets out the basic values to which it intends to commit itself and enunciates the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with broader objectives than those required by mere compliance with the law. The Group has also issued voluntary conduct policies (environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights.
The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.
Particular attention is also devoted to establishing and managing customers' risk tolerance, through the identification of their various risk appetite profiles according to subjective and objective traits of each customer.
Particular consideration has been given to financial advisory services for customers, for which the MiFID Directive was taken as an opportunity to update the entire marketing process and associated controls.
Accordingly, the Group has reinforced its longstanding general arrangement, which calls for the adoption of processes supported by quantitative methods for managing the risk associated with customers' investments in accordance with a broad interpretation of the law with the aim of safeguarding customers' interests and the Group's reputation.
This has allowed assessments of adequacy during the process of structuring products and rendering advisory service to be supported by objective assessments that contemplate the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.
More in particular, the marketing of financial products is also governed by specific advance risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner, whether credit, financial or operational) and the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

Risk on owned real-estate assets
The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in Company operations. The degree of risk in the portfolio of owned properties is represented by using a VaR-type model based on indexes of mainly Italian real estate prices, which is the main type of exposure associated with the Group's real-estate portfolio.

Absorption of Economic Capital by type of risk and Business Unit
The following is an illustration of the breakdown of the Group's Economic Capital by type of risk and Business Unit.



The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.
The majority of risk is concentrated in the "Corporate & Investment Banking" Business Unit (39.2% of the total Economic Capital): this is attributable to the type of customers served (Corporate and Financial Institutions) and to the main activities (Investment Banking and Capital Market). In fact, a significant portion of credit risk and trading book risk is attributable to this Business Unit, as well as a significant portion of the Banking Book financial risk (mainly equity).
The "Banca dei Territori" Business Unit (36.6% of the total Economic Capital) is the second source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It has a sizeable portion of the credit risk component, as well as operational risk and insurance risk.
The "International Subsidiary Banks" and "Banca Fideuram" Business Units are assigned 7.8% and 2.8% of the total risk, predominantly credit risk respectively.

In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, as well as the Banking Book interest rate risk, specifically in the management of core deposits.
Absorption of Economic Capital by Eurizon Capital is marginal (0.4%) due to the nature of its business, which is predominantly oriented to asset management activities.

Basel 3 regulations and the Internal Project

With effect from 1 January 2014, the reforms of the accords by the Basel Committee ("Basel 3") were implemented in the EU legal framework. Their aim is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks' transparency and disclosures. In doing so, the Committee maintained the approach based on three Pillars, which was at the basis of the previous capital accord, known as "Basel 2", supplementing and strengthening it to increase the quantity and quality of intermediaries' available capital as well as introducing counter-cyclical regulatory instruments, provisions on liquidity risk management and financial leverage containment.
The EU implemented "Basel 3" through two legislative acts:

– Regulation (EU) No. 575/2013 of 26 June 2013 (CRR), which governs the prudential supervision requirements of Pillar 1 and public disclosure requirements (Pillar 3);
– Directive 2013/36/EU of 26 June 2013 (CRD IV), which, among other things, deals with the access to the activity of credit institutions, freedom of establishment, freedom to provide services, supervisory review process, and additional equity reserves.

EU legislation is complemented by the provisions issued by the Bank of Italy and referring to Circular no. 285 of 17 December 2013, which contains the prudential supervision regulations applicable to banks and Italian banking groups. The provisions were reviewed and updated to adjust the internal regulations to include the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and to the needs detected while supervising banks and other intermediaries.

In order to comply with the new rules envisaged by Basel 3, the Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.
Additional information on own funds, which are now calculated according to the Basel 3 rules, and on capital ratios of the Group is provided in the section on balance sheet aggregates: Own funds and capital ratios, and in the document Basel 3 Pillar 3.

With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report as at 31 December 2008 on the Corporate portfolio for a scope extending to the Parent Company, network banks in the Banca dei Territori Division and the main Italian product companies.
Progressively, the scope of application has been gradually extended to include the SME Retail and Retail Mortgage portfolios, as well as other Italian and international Group companies, as shown in the following table.

<table>
<tr><th></th><th>Corporate
FIRB</th><th>Corporate
AIRB LGD</th><th>SME Retail
IRB LGD</th><th>Retail Mortgage
IRB LGD</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="9">Dec - 2008</td><td rowspan="9">Dec - 2010</td><td rowspan="9">Dec - 2012</td><td rowspan="8">Jun - 2010</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio in Bologna</td></tr>
<tr><td>Cassa di Risparmio del Friuli Venezia Giulia</td></tr>
<tr><td>Cassa dei Risparmi di Forlì e della Romagna</td></tr>
<tr><td>Banca dell'Adriatico</td></tr>
<tr><td>Banca di Trento e Bolzano</td></tr>
<tr><td>Mediocredito Italiano</td><td>n.a.</td></tr>
<tr><td>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2009</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Jun - 2010</td></tr>
<tr><td>Cassa di Risparmio dell'Umbria</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Cassa di Risparmio della Provincia di Viterbo</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Cassa di Risparmio di Rieti</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Banca Monte Parma</td><td>n.a.</td><td>Dec - 2013</td><td>Mar - 2014</td><td>Dec - 2013</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>Dec - 2013</td><td>n.a.</td></tr>
<tr><td>Banca IMI</td><td>n.a.</td><td>Jun - 2012</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Intesa Sanpaolo Bank Ireland</td><td>Mar - 2010</td><td>Dec - 2011</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Vseobecna Uverova Banka</td><td>Dec - 2010</td><td>Jun - 2014</td><td>Jun - 2014</td><td>Jun - 2012</td></tr>
</table>

Compared to the situation reported as at 31 December 2013 note the mergers by incorporation into the Parent Company Intesa Sanpaolo of Cassa di Risparmio di Venezia and Banca di Credito Sardo and the mergers by incorporation into Mediocredito Italiano of Mediofactoring and Leasint.

Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio, which were the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013 as part of the process leading up to the application for authorisation to be submitted in the first quarter of 2015.
The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of

companies for their application in accordance with a plan presented to the Supervisory Authority.
With reference to the Parent Company Intesa Sanpaolo and to Banca IMI, the Bank of Italy granted the authorisation to use the internal counterparty risk model for regulatory purposes, starting from the first quarter of 2014.

With regard to Operational Risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009. The scope of application of the advanced approaches expanded progressively in accordance with the roll out plan presented to the Management and to the Supervisory Authorities. For additional details, see the section on operational risks.

The adequacy of the internal control system for risks is also illustrated in the annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risks and for the calculation of internal capital and total capital available. The document was approved and sent to the Bank of Italy in April 2014.

As illustrated in details in the Report of Operations, the Intesa Sanpaolo Group has far exceeded the thresholds required by the 2014 EU-wide Comprehensive Assessment. The test was carried out on the balance sheets by the European Central Banks and by the authority of European bank at 31 December 2013 and the test consisted of an asset quality review (AQR), as well as an exercise examining the impact of a negative macroeconomic scenario on banks' capital (Stress Test).

As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 3 - Pillar 3" or simply "Pillar 3".
The document is published on the website (www.group.intesasanpaolo.com) each quarter.

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.
Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for listed companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.
Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound, prudent management, the achievement of the following objectives:

- the verification of the implementation of Company strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- the effectiveness and efficiency of the Bank processes;
- the reliability and security of Company information and IT procedures;
- the prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with especial regard to those relating to money-laundering, usury and financing for terrorism);
- the compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The internal control system plays a crucial role and involves the entire Company organisation (boards, units, hierarchical levels, all personnel). In compliance with the provisions set out in Chapter 7 of Circular no. 263 of 27 December 2006 - 15th update issued by the Bank of Italy in July 2013, the "Regulations regarding the integrated internal control system" were issued in July 2014. The purpose of these Regulations is to define the guidelines for the internal control system of Intesa Sanpaolo, as Bank and as the Parent Company of the group, by outlining the reference principles and defining the responsibilities of the bodies and functions with control duties that contribute, in various ways, to the correct operation of the internal control system, as well as identifying the coordination methods and information flows that favour the integration of the system. The structure of internal controls is also outlined by the entire set of company documentation (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls in force, incorporating all the Company policies, the instructions of the Supervisory Authorities, and provisions of law, including the principles laid down in Legislative Decree 231/2001 and Law 262/2005.
The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Regulations, Authorities and powers, Policies, Guidelines, Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls.

More specifically, the Company rules set out organisational solutions that:

- ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
- allow the prompt notification to the appropriate levels within the Company and the swift handling of any anomalies found by the business units and the control functions;
- ensure adequate levels of business continuity.

The Company's organisational solutions also enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.
At Corporate Governance level, Intesa Sanpaolo has adopted a dual corporate governance system, in which the functions of

control and strategic management, performed by the Supervisory Board, are separated from the management of the Company, which is exercised by the Management Board in accordance with the provisions of art. 2409-*octies* and subsequent of the Italian Civil Code and art. 147-*ter* and subsequent of the Consolidated Law on Finance.
The Supervisory Board established an Internal Control Committee within the Board (which replaced the Control Committee on 19 December 2014) which proposes, advises and enquires on matters regarding the internal control system. The Committee also performs the duties and tasks of a Surveillance Body pursuant to Legislative Decree 231/2001 on the administrative liability of companies, supervising operations and compliance with the Organisational, Management and Control Model adopted by the Bank.

The Intesa Sanpaolo Group adopts an internal control system based on three levels, in line with the legal and regulatory provisions in force.

This model envisages the following types of control:
– Level I: line controls which aimed at ensuring proper performance of operations (for example, hierarchical, systematic and sample-based controls) and which, to the extent possible, are incorporated in the IT procedures. These are conducted by the same operating and business structures, also through a unit dedicated exclusively to control duties or carried out by the back office;
– Level II:
– risk and compliance controls for the purpose of ensuring, inter alia:
  o the correct implementation of the risk management process;
  o compliance with the operating limits assigned to the various functions;
  o compliance of company operations with the rules, including self-governance rules.

  The functions in charge of said controls are separate from production functions and contribute to defining the risk governance policies and the risk management process. In the Intesa Sanpaolo Group, Level II includes the following Parent Company structures and the equivalent local units of the Group companies, where established:
  o Compliance Department, which carries out a compliance function, as defined by the reference regulations;
  o Anti-Money Laundering Service, which performs an "anti-money laundering function" as defined by the reference regulations;
  o Risk Management Department, Credit Quality Monitoring and Internal Validation Service, which perform, each to the extent of its responsibilities, the duties assigned to the "risk management function" as defined by the reference regulations.
– Level III: internal audit controls to identify breaches of procedures and regulations, as well as to assess periodically the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks. In the Intesa Sanpaolo Group, internal auditing is carried out by the Internal Auditing Department of the Parent Company and the equivalent local units of Group companies, where established.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context.

Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

Manager responsible for preparing the Company's financial reports
Control of the reliability of the company's financial reports is carried out in compliance with the provisions of Art. 154-bis of the Consolidated Law on Finance and the other implementing provisions issued by regulators. The exercise of said role, assigned to the responsible Manager to prepare the Company's financial reports. It also extends to the function of supervision of the financial reporting process and statutory audit process, required of public interest entities (Art. 19 of Legislative Decree 39/2010), as well as the supervisory rules on the administrative and accounting system required of companies that control companies governed by laws of non-European Union countries (Article 36 of Consob Market Regulation).

For the purposes of a harmonised coordination of the regulatory provisions, the Manager responsible for preparing the Company's financial reports oversees the fulfilment of the obligations according to a shared approach at Group level, approved by the Management Board, with the favourable opinion of the Supervisory Board.
With regard to company financial reporting, said Manager:
– guides the Group companies, coordinating the instructions for the correct and uniform application of the accounting standards and measurement criteria, formalised as part of the Group Accounting Regulations, subject to regular periodic updates;
– prepares the management and accounting procedures, taking care of their adaptation in relation to the corporate disclosure requirements defined by Regulators;
– oversees the correspondence between the corporate reporting and the accounting records; to this end, it promptly makes use of any information deemed necessary for the performance of its duties and coordinates the exchange of information with the independent auditors;
– submits public disclosures to the Management Board and certifies the compliance of financial documents and reports with the law.

With regard to monitoring of the financial reporting process, the Manager responsible for preparing the Company's financial reports:
– maintains a system of Information reports and flows with the Parent Company and the Group functions, in order to ensure effective monitoring of the consistency of balance sheet, income statement and financial positions, especially with reference to the main risks and uncertainties to which the Group may be exposed, monitoring the reliability of the data acquisition process and the process of disclosure of the relevant information;
– oversees the internal control system on the financial reporting process, submitting to the Management Board audit plans to ensure the adequacy and effective application of management and accounting procedures over the period, also by subsidiaries subject to the laws of countries that are not European Union Member States, in accordance with the provisions

laid down by Article 36 of the Consob Market Regulation; following the assessment of the audit findings, a Report on the internal control system functional to the financial reporting process is drafted;
- provides feedback on recommendations formulated by the independent auditors at the end of the audit of the Parent Company's and consolidated financial statements for the purpose of continuous improvement of procedures affecting accounting data;
- monitors the assignments granted to independent auditors to supervise the auditors' independence and impartiality, in compliance with legal provisions and in accordance with methods governed by Company Regulations;
- shares with the Supervisory Board, pursuant to Law 231/2001 the findings of the audit plan carried out by the Manager responsible for preparing the Company's financial reports in implementation of the monitoring of the financial reporting process, for the prevention of criminal and administrative offences as described in the "Organisation, Management and Control Model pursuant to Legislative Decree No. 231 of 8 June 2001".

Certification as required by art. 154-bis of the Consolidated Law on Finance

As required by art. 154-bis of the Consolidated Law on Finance, the delegated administrative bodies and the Manager responsible for preparing the Company's financial reports are to certify the following for the separate and consolidated financial statements in specific reports:
- adequacy and actual application of administrative and accounting procedures;
- compliance with international accounting standards;
- documents matching the accounting books and records;
- suitability of the documents to provide a true and fair view of the assets, liabilities, profit or loss and financial position of the issuer and of the companies included in the scope of consolidation;
- the report on operations includes a reliable analysis of business performance and results, as well as of the position of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Within Intesa Sanpaolo, the monitoring of the accounting and financial reporting process is based on the review of:
- the completeness and consistency of the information disclosed to the market, enhanced by the supervision of the internal communications processes, through the management of a structured system of information flows that the functions of the Parent Company and Group Companies regularly submit, reporting significant events for the purposes of accounting and financial reporting, especially as regards the main risks and uncertainties to which they are exposed;
- compliance of the processes and procedures used for the preparation of the company financial reports, verifying, in particular, the consistency of the auditing approach and the proper conduct of the activities functional to the financial reporting process;
- the focus of the audits is represented by the work stages which, within business processes, entail the recording, processing, evaluation and presentation of data and information, as well as of the IT architecture and application monitoring rules, especially with reference to the management of operations and development interventions on the summary systems instrumental to the financial reporting process.

The principles, criteria and instructions applied to ensure the consistency and reliability of the information included in the company accounting documents are illustrated in detail in Part A of the Notes to the financial statements.
The organisational model of supervision of the adequacy of administrative and accounting procedures and the effectiveness of the control system on the financial reporting process are governed by the Company Regulations Guidelines for Administrative and Financial Governance.
Specifically, the supervisory model involves:
- the determination of the existence and compliance of the internal control system at corporate level, through the examination, conducted by the internal audit Function, of the governance systems, the presence and dissemination of standards of conduct inspired by ethics and integrity, consistency of the organisational structures and transparent attribution of powers and responsibilities, the effectiveness of risk policies, the soundness of fraud prevention systems and the impact of codes of conduct and personnel disciplinary systems;
- the formalisation of the significant company processes for financial reporting, with specific focus on risks and controls that characterise the phases of recording, processing, assessment and representation of data and information functional to preparing company accounting documents and financial communications to the market. In addition to the financial reporting processes (for example: accounting, financial statements, reporting, management control, risk control), business processes are also envisaged (for example: credit, finance, asset management, insurance), referring to the phases of measurement and reporting of assets and liabilities recorded in the accounting books and represented in corporate documents, and the operations processes supporting transactional and administrative records;
- the performance of an annual audit plan to certify the adequacy of the procedures and the effectiveness of the controls in place, by way of comparison of the methodologies that govern the management of transactions within the scope of business processes and the forms of monitoring of the stages associated with the recording, evaluation and presentation of accounting data and financial information;
- the conduct of an annual audit plan to certify the systematic application of IT architecture governance rules with reference to the processing steps instrumental to the preparation of accounting and financial reports;
- the preparation, for each significant Group Company, of an internal control system Report on the financial reporting process, which sets out: a) the main profiles of operational and valuation complexity of the business, indicating the organisational set up and the application architectures instrumental to the financial reporting process, together with the related control procedures; b) the findings of audits conducted during the year, indicating any shortcomings found and action taken to remedy them; and c) the recommendations expressed by the independent auditors in conducting the legal audit to improve procedures affecting the accounting data;
- the formulation of an opinion on the internal control system on the financial reporting process, upon the outcome of the monitoring over the correct implementation of the regulations, the audits conducted on the scope of companies and the

performance of the evaluation process on a consolidated basis to ensure the application of standard opinion-forming criteria, further studying the material nature of critical points found in relation to the consolidated financial statements;
- the management of the communication processes between the Manager responsible for preparing the Company's financial reports and the Control Bodies, the corporate Control Functions and Internal Auditing function, in accordance with the provisions set out in the Regulations on the integrated internal control system;
- the management of the communication processes between the Manager responsible for preparing the Company's financial reports and the corporate bodies and independent auditors pertaining to legal and regulatory obligations.

To conclude the preparation of the Company's financial reports according to the rules and criteria set out in Part A of the Notes to the financial statements, and the supervisory activities conducted on the financial reporting process set out in the Guidelines for Administrative and Financial Governance, Managing Director and CEO and the Manager responsible for preparing the Company's financial reports sign the certifications required by Art. 154 bis of the Consolidated Law on Finance.

The certifications are included in the reports (one for the consolidated financial statements and one for the Parent Company's financial statements) and are provided to the public according to the model established by Consob Regulation (Annex 3c-ter of the Issuers Regulation).

In relation to the presentation of corporate documents, the correctness of the accounting records and the grounds for the representations in the financial statements are also subject to an independent assessment by the independent auditors. The auditors continuously exchange information with the Manager responsible for preparing the Company's financial reports, also in relation to any areas for improvement in the administrative and accounting procedures and the system of controls on financial reporting processes they may recommend.

Report pursuant to Art. 36 of the Market Regulation
As is common knowledge, Consob (the Italian Securities and Exchange Commission), in accordance with Law 262/2005 governing the protection of savings and the regulation of financial markets, has set certain conditions for the listing of companies that control companies incorporated and subject to the laws of non-EU member states (art. 36, paragraph 1 of the Market Regulation). In the cases of subsidiaries based in non-EU member states that are of material significance, the parent company listed in Italy is to:
a) provide the public with access to the accounting positions of subsidiaries prepared for the purposes of drafting the consolidated financial statements, including at least the balance sheet and income statement;
b) obtain from its subsidiaries their articles of association, membership and powers of the control bodies;
c) determine that their subsidiaries: provide the independent auditor of the parent company with the information necessary to perform annual and interim audits of the parent company; and ii) enjoy access to an administrative and accounting system appropriate for regular reporting to the management and independent auditor of the parent company of the income statement, balance sheet and cash flow data necessary for the preparation of the consolidated financial statements.

The administrative body of the listed parent company is to certify in the report on operations that the conditions required by this legislation are met, at the time of the approval of the annual financial statements. The control body of listed parent company is to inform Consob and the stock exchange company of any events and circumstances that entail the unsuitability of the subsidiary's administrative and accounting system to the conditions mentioned above.

In this regard, with specific reference to the set of subsidiaries based in non-EU member states and the provisions of the above-mentioned article 36, Intesa Sanpaolo has implemented an audit plan aimed at verifying that the foregoing conditions are met:
- determining that the companies' administrative and accounting systems are suited to regularly providing the competent department within the parent company and its independent auditors with the income statement, balance sheet and cash flow data required for the preparation of the consolidated financial statements and control activity;
- regularly obtaining the required company information and ensuring that the public is provided access to the accounting positions prepared by the companies for the purposes of drafting the consolidated financial statements.

On conclusion of the activities performed and the verifications conducted, compliance with the conditions required by Art. 36 of the Market Regulation is confirmed.

The Risk Committee, Management Board and Supervisory Board have been informed of compliance with the provisions which govern companies incorporated in and subject to the laws of non-EU member states, with a specific notice (provisions of article 36 of the Markets Regulation) in the broader periodic report on the internal control system for financial reporting already drafted pursuant to article 154-*bis* of the Consolidated Law on Finance (see point 3.2), and contains an illustration of the overall governance and control activities performed in accordance with the various provisions of laws and internal Group regulations governing the supervision of financial reporting, organically coordinated by the Manager responsible for preparing the Company's financial reports.

Risk Management
The Risk Management Department is responsible for operational implementation of the management strategies and guidelines for risk along the Bank's entire decision-making chain, down to individual operational units. The Risk Management Department is responsible for the risk exposure methods and controls implemented in each business unit, reporting on the overall situation to the corporate governance bodies. It proposes the annual update of the RAF to the Chief Risk Office and operational limits for financial risks (for both the banking and trading books, promotes the use of risk measurement tools during the credit granting and managing process and the concentration process; it oversees the methodological and organisational framework for operational risks, adopts capital-at-risk measurements for management reporting and assessment of the Group's internal capital adequacy and ensures that statutory reports are sent to the Supervisory Authorities.
The Department's tasks and functions are discussed in detail in the subsequent chapters of Part E.

Credit Quality Monitoring Unit

Credit Quality Monitoring, as a Group Level II Control Function, is responsible for the ongoing monitoring of the quality, composition and evolution of the Bank's credit portfolio.
It fulfils its mission through structured monitoring activities on the various credit granting and management processes, following the related steps for each administrative risk status, including with respect to credit deterioration, in terms of the consistency of classifications, provisioning and recovery processes. It also initiates any corrective measures that the Bank must implement and those in relation to the Chief Lending Officer and Loan Recovery Department, according to the responsibilities over the positions.
It also carries out monitoring and control of the rating allocation and update processes.
Credit Quality Monitoring gears its audit activities towards individual exposures or clusters of exposures with "risk based" criteria. In general, the development of the audit activities includes a preliminary examination of the individual credit processes in order to verify that level I controls are correctly put in place, as well as their regulatory framework and implementation methods.
It monitors the correct implementation by the Bank of regulations concerning control over credit quality. It ensures, in relation to the Bank, the periodic reporting one the evolution and quantitative and qualitative composition of its credit portfolio, its processes for granting and managing loans, the results of the monitoring and control activities performed and the remediation actions requested and implemented, which it submits to the corporate and control bodies of the Bank, if necessary, to the control bodies of the Parent Company.
Lastly, Credit Quality Monitoring assigns the Chief Risk Officer the powers to grant and manage loans, defining the limits and criteria for their determination as regards the Bank's levels of autonomy, above which it must request a compliance opinion from the Parent Company.
Moreover, the Unit examines and submits to the Chief Risk Officer for approval, the decision-making powers adopted by the Bank for limits lower than those set for the request for the compliance opinion. Lastly, it oversees the updating of the related regulations.

Internal Validation

The internal control system implemented by the Bank includes the validation function, the purpose of which is ongoing evaluation, in accordance with the New Supervisory Regulations for banks[8], of the compliance of internal risk measurement and management systems over time as regards determination of the capital requirements with regulatory provisions, Company needs and changes in the market of reference. The validation function is entrusted to Internal Validation, which is responsible for the activity at the Group level in accordance with the requirements of supervisory regulations governing uniform management of the control process on internal risk measurement systems. The Internal Validation Unit reports directly to the Chief Risk Officer and is independent of the units that manage internal system development activities and the internal auditing department. It ensures that internal models, whether already operational or in the development stages, are validated with regard to all risk profiles covered by Pillars 1 and 2 of the Basel Accord, in accordance with the independence requirements established by the reference regulations. With respect to the first pillar in particular, it conducts ongoing assessments of risk management and measurement systems in terms of models, processes, information technology infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference by developing adequate methodologies, tools and operating solutions.
Both during the initial application phase and on an ongoing basis (at least annually), the results of the Internal Validation Function’s activities, documented in accordance with pre-determined standards, are presented to the competent functions, transmitted to the Internal Auditing Department for its related internal auditing work, as well as to the competent managerial committees and governance bodies for the resolution certifying the compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.
With respect to pillar-two risks, the Internal Validation Function conducts analyses of methodologies, verifying in particular that the measurement or assessment metrics adopted in quantifying significant risks are economically and statistically consistent, the methodologies adopted and estimates produced to measure and assess significant risks are robust and comparing alternative methodologies for measuring and aggregating individual risks. The analyses are conducted both in advance, when adopting/modifying the internal systems used for Pillar 2 purposes, and ex post as part of the prudential control process. The latter are summarised in the ICAAP report while, for substantial or significant modifications of internal systems, Internal Validation produces a report to be submitted to the competent Management Committees and the governance bodies[9].The unit also manages the internal validation process at the Group level, interacting with Supervisory Authorities, the company bodies of reference and the units responsible for the level-three controls provided for in regulations. The Internal Validation Unit adopts a decentralised approach for companies with local validation functions[10] (certain international companies), coordinating and supervising the activities of such companies, and a centralised approach for the others. The methodologies adopted were developed in implementation of the principles that inspire the Supervisory Regulations for banks, Community Directives, general orientations of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.
The unit generally also provides advice and suggestions to company and Group functions on an ongoing basis with the aim of improving the efficacy of the processes of risk management, control and governance of internal risk measurement and management systems for determining capital requirements.

In 2014, the main validation activities in the area of credit risks pertained to:

– validation activities aimed at presenting the application for the adoption, for the purposes of calculating regulatory capital requirements, internal PD estimates for the Banking Book Equity portfolio;
– monitoring of the completion of measures taken in accordance with the requirements set in the regulatory capital “floor” revision order of summer 2011.

[8] EU Regulation no. 575/2013 (CRR); Bank of Italy Circular no. 285/2013; Bank of Italy Circular no. 263/2006, as amended (where applicable).
[9] In the event of substantial/significant modifications, the approval process requires that the Risk Management Department submit updates to the Internal Management System, accompanied by the impact analysis on the risk metrics and the report of the validation unit, to the competent Managerial Committee for approval. Subsequently, reporting is drawn up on those modifications to the Management Board and the Supervisory Board.
[10] Note that the functional reporting of local validation units to the Internal Validation Unit has been formalised.

- preliminary assessment for the operational adoption of the Other Retail approval model;
- half-yearly analyses on guarantees used to mitigate credit risk (mortgage, personal and financial guarantees).

In the cases of the international subsidiaries, Internal Validation conducted its own assessments in collaboration with the local validation functions, where present, so that the relevant applications could then be submitted to the competent Supervisory Authorities. In detail, analyses of the adequacy of internal risk measurement systems for the purposes of determining capital requirements for credit risk were completed for the following subsidiaries:
- VUB (Slovakia): pre-validation report for authorisation of the internal adoption of models relating to Non-Banking Financial Institutions (NBFI), assessment of the changes made to the validated Structured Finance models (RED / SPV) and updating of the Corporate model (IALC);
- PBZ (Croatia): pre-validation report for the authorisation of the internal adoption of Corporate, Specialised Lending and Residential Mortgages for Individuals (Housing/Mortgage) models;
- CIB (Hungary): pre-validation analyses for the Corporate PD model and the Specialised Lending Scorecards models;
- BIB (Serbia): pre-validation report for authorisation of the internal adoption of the Large and SME Corporate models;
- Banka Koper (Slovenia): support to activities concerning parallel calculation and Credit Risk Mitigation (CRM).

Validation activities for operational risk conducted in 2014 took the form of:
- analysis of the results obtained simultaneously by the AMA calculation engine developed by SAS and that under production (developed by R/Matlab) to verify that they match;
- verification of the strength of the model in the event of significant changes in the loss data during 2014 (internal and external);
- execution of ongoing validation analyses for the purpose of drawing up the annual report. These include the activity - conducted by the Internal Validation Unit for the first time during 2014 - of replicating and verifying the database used by the calculation engine to quantify capital requirements. For the purposes of such activities, the information drawn from documentary and empirical analyses (using Isidoro data) was supplemented by specific onsite inspections of international banks included in the scope of AMA (with the support of the local validation functions), aimed at ascertaining the actual application of the monitoring and management process for operational risks and by methodological analyses. Concurrently, in the first half of 2014, the Internal Validation Unit completed the Remote Verification Process for the Organisational Units/Legal Entities within the AMA scope.

The activity of the Internal Validation Unit relating to the market risk component focused on the following areas:
- periodic quantitative and qualitative analysis as part of the ongoing valuation activity (in particular, backtesting of the Value at Risk (VaR) model and stress testing of the Incremental Risk Charge (IRC) model);
- monitoring of the existing model for calculating stressed VaR, which entails a half-yearly revision of the adequacy of the historical stress period to be used in the calculation;
- verifications conducted to support the request to revise the add-ons defined by the Bank of Italy, to calculate the capital requirement for market risk using the internal model, in relation to the completion of the corrective measures requested.

The Bank of Italy also involved the Internal Validation Unit in the inspection concerning the AQR (Asset Quality Review). The customised analyses are part of a wider range of ongoing activities concerning pricing issues (for example, verification of the consistency of non-contributed bonds pricing among the end of quarter measurements carried out by the Risk Management Department, and operational pricing, monitored by Product Control of Banca IMI).

For Counterparty Risk, in March 2014 the Bank of Italy authorised Intesa Sanpaolo and Banca IMI to use the internal model for calculating capital requirements. As part of the quarterly update required, the Internal Validation Unit monitors the progress of the corrective measures implemented for the findings reported by the Bank of Italy in the authorisation letter. Preliminary validation activities were also conducted for the roll-out of the internal model to the Banks in the Banca dei Territori Division and to several product companies.

With regard to Pillar 2 risks, the following analyses have been planned to assess the methods to be used to calculate economic capital as at 31 December 2014:
- impact analysis on the use of management metrics in the portfolio model;
- analysis of economic capital for Pillar 2 credit risk (i.e., including the additional components compared to Pillar 1, for example, the concentration component) for International banks and comparison with the economic capital used for local ICAAP reporting;
- analysis of the banking book interest rate model;
- assessment of possible changes in the remaining Pillar 2 models (for example, adopting the PD/LGD approach for equity risk and the adoption of the stochastic LGD in the portfolio model);
- assessment of the corrective measures implemented or under way on findings of the Internal Valuation Unit during the previous ICAAP report.

Moreover, in 2014, the Risk Management Department conducted the annual valuation of the parameters of demand deposits to quantify shift sensitivity. The purpose of this valuation was to assess the need for re-estimation as a result of changes in the composition and amount of demand deposits. In light of the results, the Risk Management Department, in agreement with the Internal Validation Unit, decided it was not necessary to re-estimate the parameters.

The Compliance Department

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust. Management of compliance risk is entrusted to the Compliance Department, which reports to the Chief Risk Officer, from a position of autonomy with respect to operating departments, and of separation from internal auditing.

The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Management Board and Supervisory Board, which indicate the responsibilities and macro processes for compliance, set out to mitigate compliance risk through a joint

effort by all company functions. The Compliance Model was revised during 2014, with the aim of adapting to the new provisions on internal control systems issued by the Bank of Italy in July 2013, extending the responsibility of the compliance function to the management of compliance risk of all company operations.
The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of compliance risk. Moreover:
– with regard to the regulatory areas of strategic importance to the Supervisory Authorities or for which centralised management of compliance risk is considered necessary, the Compliance Department is responsible for identifying and assessing compliance risks, proposing of the functional and organisational measures for their mitigation, assessing the consistency of the company's bonus system, conducting pre-assessments on the compliance of innovative projects, operations and new products and services, providing advice and assistance to the governing bodies and the business units in all areas with significant compliance risk, monitoring, including through the use of information provided by the other control functions, ongoing compliance, and promoting a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules;
– for all other regulatory areas applicable to the Bank and exposed to the compliance risk, for which Specialist Functions vested with the necessary duties have been identified. The tasks assigned to the compliance Function are entrusted to said structures, without prejudice to the Compliance Department's responsibility for defining, through their collaboration, risk assessment methodologies and procedures aimed at mitigating those same risks and issuing an independent opinion of the compliance risk and the adequacy of the monitoring in place.

The Compliance Department submits periodic reports to corporate bodies on the adequacy of compliance control, with regard to all regulatory aspects applicable to the bank, which show compliance risks. On an annual basis, these reports include an identification and assessment of the primary compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a half-yearly basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.
The Compliance Guidelines call for the adoption of two distinct models in relation to direction and control of the Group. These models are organised in such a way as to account for the Intesa Sanpaolo Group’s structure in operational and territorial terms. In particular:
– compliance supervision activities for specifically identified Network Banks and Italian Companies whose operations show a high degree of integration with the Parent Company are centralised with the Compliance Department;
– for the other Companies, specifically identified on the basis of the existence of a legal obligation or there material nature, as well as for International Branches an internal compliance function is established and a local Compliance Officer is appointed, which are assigned compliance responsibilities. The local Compliance Officers of the subsidiaries functionally report to the Compliance Department, while the branches have hierarchical reporting, except in specifically identified cases where they carry out functional reporting.

The activities carried out during the year concentrated on the regulatory areas are considered to be the most significant in terms of compliance risk, includingthe most significant ongoing projects that are part of the Company Strategic Plan, as well as the measures to comply with new regulations enacted at an international level (e.g., MiFID 2 and MiFIR, EMIR, the Dodd Frank Act and the short-selling law). In particular:
– in the financial intermediation and investment services area, monitoring of the procedural organisational structure in support of the service model adopted by the Bank continued, also in light of the Guidelines on suitability issued by ESMA in July 2012 concerning adequacy, a project for adjustment to MiFID 2 and MiFIR was launched at Group level. Work also continued in the area of monitoring personal transactions, clearing new products and services and controlling customer operations in order to prevent market abuse. In the area of conflict of interest management and the circulation of insider information, work continued to be done with the aim of enhancing the model adopted by the Bank;
– legislative developments in the areas of banking products and services were monitored, with a particular focus on the issue of transparency, consumer credit and usury. Rules, procedures and operational practices were established to prevent violations or infractions of applicable rules governing such products and services in order to ensure that support and guidance are provided to business units with the aim of ensuring that customer-protection provisions are properly managed;
– in the area of insurance and pension services, business functions received constant advice, concerning in particular policies paired with mortgages and motor policies. In addition, initiatives continued with the aim of enhancing governance of compliance risks pertaining to the insurance and pension segment, with respect to the Group's distribution networks. In particular, the Bank's service model for insurance products was defined through the formalisation of rules for the sale of Life Business Class I policies, Non-Life and Protection products;
– the organisational, management and control Model pursuant to Italian Legislative Decree 231/2001 was overseen by verifying its compliance with the Company regulations and coordinating verification of its proper implementation.

Concurrently, the progressive implementation of the new Compliance model was launched on the specialised functions, with a primary focus, pursuant to a risk-based approach, on the tax and ICT areas, and the models and methods for strengthening assurance activities were defined.
Additional activities were aimed at reinforcing management and coordination activity for international subsidiaries, with the aim of implementing a supervisory model comparable to that adopted by the Parent Company, involving the establishment of shared control guidelines and standards for the most sensitive areas.
Considerable importance was attached to personnel training programmes, involving the implementation, in collaboration with the competent company functions, of initiatives aimed at pre-defined targets in order to maximise their efficacy.

The Anti-Money Laundering Function

In August 2011, in line with the regulatory provisions issued by the Bank of Italy on 20 March 2011, responsibilities in the area of the prevention of money laundering and embargo management, previously entrusted to the Compliance Department, were reassigned to a specific Anti-Money Laundering Function reporting directly to the Chief Risk Officer. The Function is charged with monitoring compliance risk in the area of money laundering, combating financing of terrorism and embargo management by:
– laying down the general principles to be adopted within the Group for the management of compliance risk;
– conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable

regulations and proposing appropriate organisational and procedural changes;
- providing advice to the functions of the Parent Company and subsidiaries on a centralised basis and establishing adequate training plans;
- preparing appropriate periodic information for corporate bodies and top management;
- discharging the required specific obligations on behalf of the Parent Company and subsidiaries on a centralised basis, including, in particular, enhanced customer reviews, controls of proper management of the Single Electronic Archive and the assessment and monthly submission to the Financial Reporting Unit of data relating to aggregated anti-money laundering reports, and the assessment reports of suspicious transactions received from operating departments for the submission to the Financial Reporting Unit of reports deemed accurate.

During 2014, the Anti-Money Laundering Function devoted the utmost attention to projects aimed at reinforcing coverage of the Group's Italian and international companies in the area of money laundering and embargoes, including in light of the new provisions of law enacted at the national and international level and instructions from the Supervisory Authorities. In further detail, organisational, IT and training activities were performed with the aim of implementing applicable regulations in this area.

The Internal Auditing Department

Internal auditing activities are performed by the Internal Auditing Department, which reports directly to the Chairman of the Management Board and the Chairman of the Supervisory Board. It also liaises with the Control Committee and has no direct operating responsibilities.

The Department has a structure and a control model which is organised consistently with the organisational model of Intesa Sanpaolo and, more generally, of the Group.

As part of its duties, the Department also liaises with the Internal Auditing departments of the Group's Italian and international companies.

The Internal Auditing Department performs overall level 3 assessment of the internal control system, reporting possible improvements to the corporate bodies, with specific regard to the RAF, the risk management process and risk measurement and control instruments.

In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control systems, the risk management process and corporate processes, also with regard to their capacity to identify errors and irregularities. In this context, amongst others, it audits the risk control and regulatory compliance departments, through participation in plans so as to create value added and to improve the effectiveness of the control and corporate governance processes. The audit action directly concerns Intesa Sanpaolo and the Group companies.

The Internal Auditing Department is also responsible for assessing the effectiveness of the processing of defining the Risk Appetite Framework, the internal consistency of the overall framework and its compliance with Bank operations.

The Head of the Internal Auditing Department enjoys the due autonomy and independence from operating departments. The Department has free access to the activities, data and documents of all company functions.

The Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practices and standards for internal auditing established by the Institute of Internal Auditors (IMIA).

The Department has earned the maximum rating in the external Quality Assurance Review envisaged by the international standards "Generally Compliant."

In performing its duties, the Department uses structured risk assessment methods to identify existing situations of greatest interest and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, and from any specific requests for further enquiry expressed by top management and corporate bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Internal Control Committee.and the plan was subsequent approved by the Management Board and the Supervisory Board, on the basis of which it conducts its activities during the year, in addition to a Long-Term Plan with hedging commitments.

During 2014, auditing was performed directly for the Parent Company, Intesa Sanpaolo, the Network Banks and other subsidiaries under an outsourcing contract. For the other Group companies with their own internal audit departments, controls were conducted (indirect surveillance).

The continuing delicate economic scenario conditioned supervision activity. Consequently, in accordance with instructions issued by the Internal Control Committee and the top management, audits were primarily aimed at monitoring the evolution of the risks associated with credit quality, internal capital adequacy estimation criteria and international activities. Particular attention was also devoted to the themes of compliance with money laundering prevention regulations.

Control activity was generally oriented towards the processes carried out by company functions with the aim of assessing:
- the functionality of line and second-level controls;
- the reliability of operating departments and delegation mechanisms;
- the accuracy of the information available in the various activities and the adequate use of the same.

Direct surveillance, both on-site and remote, was carried out in particular through supervision of processes relating to:
- credit granting, management and classification, verifying its adequacy with respect to the risk control system and the functioning of measurement mechanisms in place;
- measurement, management and control of the Group's exposure to various market, counterparty, property, liquidity, interest rate, operational, credit and country risks. Particular attention was dedicated to the adequacy of the processes and criteria for estimating internal capital with respect to the Risk Appetite Framework as well as in accordance with the Prudential Supervisory regulations;
- controls carried out by compliance risks governance functions and operating functions, in particular on provisions of law concerning money laundering, investment services, transactions with related parties and the administrative liability of entities pursuant to Legislative Decree 231/01;
- IT system development and management, to ensure their reliability, security and functionality;
- management of financial operations with the aim of verifying the adequacy of related risk control systems;
- management of operations.

Control activity was then completed through:
- measures affecting Italian product company subsidiaries, with a priority focus on credit quality and processes, as well as on money laundering prevention and embargo processes;

- verification of the operations performed by foreign banks, companies and branches, with interventions by both local internal auditors and internal auditors from the Parent Company;
- control of the governance activity performed by the Parent Company for the International Subsidiary Banks;
- timely performance of the assessments requested by Supervisory Authorities in specific areas such as management remuneration and incentive systems, the Parent Company's management and coordination powers over asset management companies, obligations under new authorisations, privacy, business continuity, provisioning for doubtful loans and Asset Quality Review.

Indirect audit was conducted via the steering and practical coordination of the auditing departments of Italian and international subsidiary banks and companies, to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, was also performed for those companies, as mentioned above.

Any weak points detected during control activities have been systematically notified to the company functions involved for prompt improvement actions which are monitored by follow-up activities.
Summary Internal control system assessments from the checks have been periodically submitted to the Internal Control Committee, Management Board and Supervisory Board. The main weaknesses detected and their development over time have been included in the Audit Tableau de Bord (TdB) so that they may be systematically monitored. The reports on the audits with a negative outcome or with remarkable irregularities observed were submitted in full and illustrated to the corporate bodies.

Lastly, the Internal Auditing Department ensured constant assessment of its own efficacy and efficiency in line with the internal "quality assurance and improvement" plan drafted in accordance with the recommendations of international standards for professional audit practice.

SECTION 1 – RISKS OF THE BANKING GROUP

As required by the instructions provided by the Bank of Italy, the information in this section - Risks of the Banking Group - is furnished solely with respect to the banking group, as defined in the Supervisory Instructions, except when it is expressly indicated to the contrary that all companies within the scope of consolidation are considered.
The tables that refer to the banking group alone include the share proportional to the interest held of the assets and liabilities of jointly controlled banking, financial and instrumental companies consolidated proportionally for regulatory purposes Amounts are stated gross of transactions with other companies within the scope of consolidation.
Where the contribution of transactions between the banking group and the other companies in the financial statement scope of consolidation is material, the details of such transactions are provided.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet.

(millions of euro)

Assets		**31.12.2014 Financial Statements**	**Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)**	**31.12.2014 Regulatory-scope balance sheet**
10.	Cash and cash equivalents	6,631	-	6,631
20.	Financial assets held for trading	53,741	-769	52,972
30.	Financial assets designated at fair value through profit and loss	43,863	-42,437	1,426
40.	Financial assets available for sale	124,150	-71,604	52,546
50.	Investments held to maturity	1,471	-	1,471
60.	Due from banks	31,372	-816	30,556
70.	Loans to customers	339,105	2,660	341,765
80.	Hedging derivatives	9,210	-2	9,208
90.	Fair value change of financial assets in hedged portfolios (+/-)	59	-	59
100.	Investments in associates and companies subject to joint control	1,944	4,738	6,682
110.	Technical insurance reserves reassured with third parties	27	-27	-
120.	Property and equipment	4,884	-55	4,829
130.	Intangible assets	7,243	-738	6,505
	of which: goodwill	*3,899*	*-470*	*3,429*
140.	Tax assets	14,431	-447	13,984
150.	Non-current assets held for sale and discontinued operations	229	-	229
160.	Other assets	8,067	-2,577	5,490
Total Assets		**646,427**	**-112,074**	**534,353**

Liabilities and Shareholders' Equity		**31.12.2014 Financial Statements**	**Effects of the deconsolidation and consolidation of counterparties other than those in the banking group**	**31.12.2014 Regulatory-scope balance sheet**
10.	Due to banks	51,495	26	51,521
20.	Due to customers	230,738	4,622	235,360
30.	Securities issued	123,768	3,408	127,176
40.	Financial liabilities held for trading	46,376	-145	46,231
50.	Financial liabilities designated at fair value through profit and loss	37,622	-37,622	-
60.	Hedging derivatives	10,300	-53	10,247
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	1,449	-	1,449
80.	Tax liabilities	2,323	-795	1,528
	a) current	*662*	*-27*	*635*
	b) deferred	*1,661*	*-768*	*893*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	201	-	201
100.	Other liabilities	12,119	-1,680	10,439
110.	Employee termination indemnities	1,480	-5	1,475
120.	Allowances for risks and charges	3,793	-18	3,775
	a) post employment benefits	*1,167*	*-1*	*1,166*
	b) other allowances	*2,626*	*-17*	*2,609*
130.	Technical reserves	79,701	-79,701	-
140.	Valuation reserves	-1,622	-	-1,622
150.	Redeemable shares	-	-	-
160.	Equity instruments	-	-	-
170.	Reserves	9,054	-	9,054
180.	Share premium reserve	27,349	-	27,349
190.	Share capital	8,725	-	8,725
200.	Treasury shares (-)	-74	-	-74
210.	Minority interests (+/-)	379	-111	268
220.	Net income (loss)	1,251	-	1,251
Total Liabilities and Shareholders' Equity		**646,427**	**-112,074**	**534,353**

(*) The effects are attributable to :
- deconsolidation of companies that are not part of the Banking Group;
- proportional consolidation of the jointly controlled companies that are consolidated at equity in the financial statements.